



# Pooling to Finance Risk

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## Basic Goal of Pooling

- Insurer's Profit becomes member equity
- Picture to illustrate keeping money

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## Basic Concepts

- Pool “premiums” into loss fund
- Excess “premiums” become member surplus
- Investment income on surplus and losses become member surplus
- Increased surplus allows for reduced “premiums” and increased services

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## Show Me The Money

- Contributions
- *Less* Losses paid
- *Less* Losses reserved
- *Less* IBNR
- *Less* Admin Expenses
- *Less* Taxes
- *Plus* Investment Income
- *Equals* Member Equity

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## Losses Paid

- Amounts the adjusters have already paid on claims
- Property claims are paid faster than liability claims, work comp claims take the longest to pay

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## Losses Reserved

- Amounts the adjusters believe they will pay on the claims based on the information available to them at the time

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## IBNR

- Estimate of Ultimate Paid amount based on past experience (Actuarial Reserve Analysis)
- IBNR is higher for claims taking longer to pay out (liability and work comp)
- As we perform with increased efficiency, IBNR is recovered as equity, and IBNR is reduced for future claims.

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## Taxes

- Although Pool is a tax exempt government entity, the State still taxes us as an insurance company
- The pool also pays for licenses and certificates from the state

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## Investment Income

- Earned on current member equity
- Earned on all losses reserved
- Earned on IBNR
- So losses add up to investment income
- The more years of losses and IBNR we carry, the larger the investment income

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## Member equity

- Members are the “shareholders”, so “profits” belong to them
- Member equity calculated for each fiscal year
- Equity can be used to:
  - Cover losses and expenses, reducing contributions
  - Increase loss control services, reducing losses and increasing equity
  - Return dividends to members

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## Reinsurance

- Insurance the Pool purchases to protect the member's equity
- Covers large individual claims and catastrophic losses involving multiple members

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## The Result?

- Over 600 pools in US
- 85% of all local government are members of pools
- Billions in Pooled contributions
- Billions in Pooled member equity
- Billions in Pool dividends

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## Where is UCIP

- Current Member Contributions
- Losses Paid
- Losses Reserved
- IBNR
- Expenses
- Investment Income
- Member Equity

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## Great Job

- Member's equity is money that would have been lost to insurance companies, but has been retained by counties through the pool

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## Thank You!

- Complete Evaluations
- Provide Suggestions for next sessions
- DRIVE SAFELY!